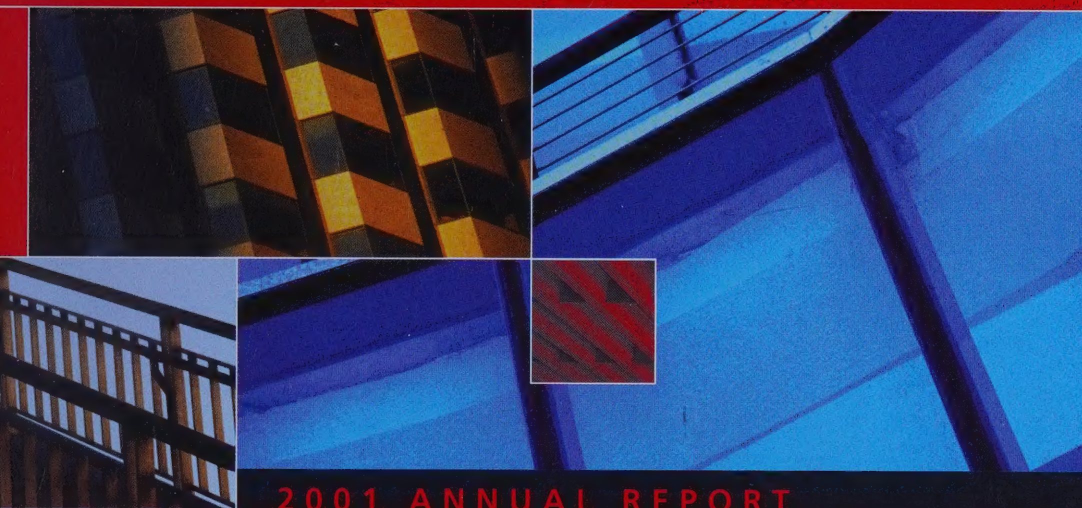

2001 ANNUAL REPORT

and Financial Statements for the
three month period ending January 31, 2002

Scotia Mortgage
Investment Corporation

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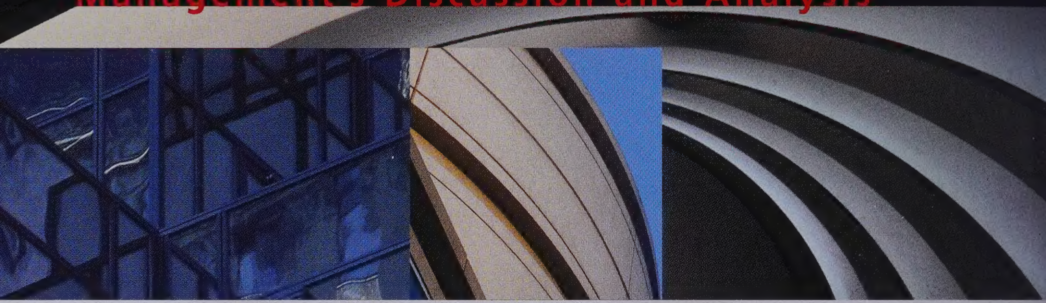
Message from the Chairman

I am pleased to distribute Scotia Mortgage Investment Corporation's fifth annual report to the holders of the Company's Preferred Shares Class A – the Scotia BOOMS. As shareholders are aware, the Scotia BOOMS are an innovative financial instrument providing the public with an opportunity to invest indirectly in residential mortgage assets and providing Scotiabank with a cost-effective means of raising capital.

The Company is operating on a fully satisfactory basis consistent with its expected performance. In 2001, the Company recorded a net profit of $1,089,000 after the payment of Scotia BOOMS dividends compared to a net profit of $265,000 in 2000. The Company's asset structure and hedging strategy are designed to provide a stable and predictable income stream and cash flow to service future dividends for the Scotia BOOMS holders. The Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and the financial statements in this annual report will provide you with further information on the results of operations in 2001.

Scotia BOOMS holders received dividends of $32.85 per share April 30th and October 31st. No dividends were paid on the common shares. The dividend policy adopted by the board of directors ensures that the Scotia BOOMS holders will receive the full amount of their fixed dividend entitlement before any dividends are paid to the common shareholder. Further, the Company's ability to continue to meet its Scotia BOOMS dividend obligation is enhanced by the "20% overcapitalization" provided by Scotiabank's investment in all outstanding common shares.

R. W. Chisholm



Management's Discussion and Analysis of Financial Condition and Results of Operations

October 31, 2001

Business of Scotia Mortgage Investment Corporation

Scotia Mortgage Investment Corporation (the "Company"), a subsidiary of The Bank of Nova Scotia (the "Bank"), was formed under the Trust and Loan Companies Act (Canada) in 1997. The principal business of the Company is to provide the public with an opportunity to invest indirectly in residential mortgage assets through the holding of preferred shares ("Scotia BOOMS"), and to provide The Bank of Nova Scotia with a cost-effective means of raising capital. The Bank of Nova Scotia owns 100% of the common shares of the Company.

In 1997, the Company issued 250,000 Scotia BOOMS at a price of $1,000 each. Scotia BOOMS are non-voting Preferred Shares Class A of the Company, and are traded on the Toronto Stock Exchange under the symbol SMC.M. Each Scotia BOOMS is entitled to a non-cumulative preferential cash dividend (the "Indicated Yield"), which is treated as interest for Canadian federal income tax purposes. The Indicated Yield is payable semi-annually on the last day of April and October in each year, if, as and when declared by the Board of Directors of the Company, at an annual rate of 6.57%.

The Indicated Yield is funded through the Company's investment in residential mortgages purchased from the Bank and/or Scotia Mortgage Corporation ("SMC"), a wholly owned subsidiary of the Bank. In 1997, an initial portfolio of approximately $304 million was purchased from the Bank. The portfolio was comprised of Canada Mortgage and Housing Corporation ("CMHC") insured residential first mortgages originated by the Bank with a term to maturity of approximately five years.

The Company purchases from time to time additional mortgage assets from the

Bank and/or SMC. Mortgages are acquired on a fully-serviced basis on terms that are comparable to those that could be obtained by the Company if such mortgage assets were purchased from unrelated third parties.

Pursuant to an Advisory Agreement, the Bank provides officers to administer the day-to-day operations of the Company. The Bank also provides to the Company advice and counsel with respect to the acquisition and disposition of Mortgage Assets, strategies for minimizing interest rate risk through the use of derivatives, and other advice and counsel as requested from time to time by the Company.

Results of Operations

The Company's net income after Scotia BOOMS dividends for the year ended October 31, 2001 was $1,089,000 compared to $265,000 in 2000. Net income before the payment of dividends was $10,550,000 compared to $9,626,000 in 2000. Looking forward, the Company expects to remain profitable as a result of its mortgage investment and hedging strategy.

Interest earned on mortgage loans was $19,652,000 (including related net swap interest) compared to $18,240,000 in 2000. Interest earned on deposits was $422,000 compared to $395,000 in 2000.

The mortgage loan portfolio earned a yield of approximately 6.5 % during the year on an average mortgage portfolio balance of $303 million. At the end of the year, the mortgage loan portfolio had an average remaining term to maturity of approximately one year. During the year, the Company purchased approximately $314 million of CMHC insured residential mortgages from the Bank, and also sold approximately $235 million of maturing mortgages to the Bank.

Operating expenses of $512,000 for 2001 compared to $491,000 incurred in 2000. Operating expenses for 2001 included: a $250,000 advisory fee paid to the Bank in accordance with the Advisory Agreement; a $75,000 standby fee paid to the Bank in relation to a credit facility; $48,000 for director's fees; and $75,000 for regulatory fees.

During the year the Company paid semi-annual dividends of $32.85 per Scotia BOOMS on the last day of April and October. The total after-tax cost to the Company of such dividend payments was $9,461,000. No dividends were paid to the common shareholders.

Dividend Policy

The Company intends to declare and pay the Indicated Yield on the Scotia BOOMS unless there are reasonable grounds for believing that the Company is, or after any such distribution would be, in contravention of any regulation or

direction made under the Trust and Loan Companies Act (Canada) relating to capital or liquidity. There are currently no anticipated or known restrictions on the Company's ability to declare or pay dividends on the Scotia BOOMS.

Management of Operating Risk

The Company manages the interest rate risk arising from any funding mismatch through the use of hedging instruments. Interest rate risk arises on the reinvestment of cash proceeds from regular mortgage payments and prepayments. During the year the Company generally reinvested cash in excess of its operating needs into CMHC insured residential mortgages with a six-month term to maturity, and has entered into derivative contracts to match the term structure of such mortgages.

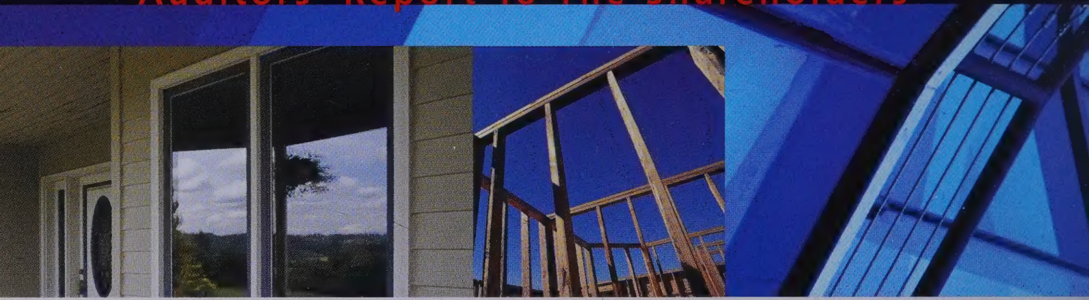
In 1997, the Company entered into an interest rate swaption with the Bank to mitigate the reinvestment risk associated with normal principal payments and customer prepayments in the Company's existing mortgage portfolio during its initial five-year term. During 2001, the Company exercised $21 million of the interest rate swaption, leaving a maximum remaining exercisable amount of $117 million outstanding at the end of the year. The Company receives a fixed rate of return on the swap notional amount exercised or purchased to date, and in return pays at a rate equal to three-month banker acceptances.

Also in 1997, the Company entered into a delayed start interest rate swap agreement with the Bank to hedge the reinvestment risk associated with the renewal of the Company's entire mortgage loan portfolio after the initial five year period. This interest rate swap contract has a notional amount of $250 million.

Senior management closely manages the Company's interest rate risk by continuously monitoring the interest rate exposure, and takes actions as appropriate. Responsibility for the Company's risk management policies and level of risk assumed rests with the Board of Directors. The Board charges management with developing, presenting and implementing these policies. Management is supported by a comprehensive structure of independent controls, review, reporting and audit processes within the Scotiabank Group of Companies.

2001 Financial Statements of Scotia Mortgage Investment Corporation

Auditors' Report To The Shareholders



We have audited the balance sheets of Scotia Mortgage Investment Corporation as at October 31, 2001 and 2000, and the statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at October 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG LLP
Chartered Accountants

Halifax, Canada
December 14, 2001

Balance Sheet

As at October 31

(In thousands of dollars)	**2001**	2000
ASSETS		
Cash	**$ 3,709**	$ 8,622
Mortgage loans (note 3)	**307,101**	300,327
Other assets (note 4)	**2,499**	2,260
	$ 313,309	$311,209
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	**$ 20**	$ 22
Taxes payable	**1,013**	–
Due to The Bank of Nova Scotia (note 5)	**2,075**	2,075
	3,108	2,097
SHAREHOLDERS' EQUITY:		
Capital stock (note 6):		
Preferred shares Class A	**250,000**	250,000
Common shares	**62,500**	62,500
	312,500	312,500
Deficit	**(2,299)**	(3,388)
	310,201	309,112
	$ 313,309	$311,209

See accompanying notes to financial statements.

On behalf of the Board:

G. A. Bradbury, Director

E. M. Roberts, Director

Statement of Income and Deficit

For the year ended October 31

(In thousands of dollars)	**2001**	2000
INCOME		
Interest on mortgage loans	**$ 19,652**	$ 18,240
Other interest	**422**	395
	20,074	18,635
General and administrative expenses	**512**	491
Income before income taxes	**19,562**	18,144
Income taxes	**9,012**	8,518
Net income	**10,550**	9,626
Deficit, beginning of year	**(3,388)**	(3,653)
Preferred dividends paid, net of income tax recovery of $6,964 (2000 - $7,064)	**(9,461)**	(9,361)
Deficit, end of year	**$ (2,299)**	$ (3,388)

See accompanying notes to financial statements.

Statement of Cash Flows

For the year ended October 31

(In thousands of dollars)	**2001**	2000
Cash provided by (used in):		
OPERATING ACTIVITIES:		
Net income	**$ 10,550**	$ 9,626
Adjustment for item not affecting cash flows:		
Amortization of swaption premium	**257**	466
Net change in non-cash working capital components	**515**	923
	11,322	11,015
FINANCING ACTIVITIES:		
Preferred dividends paid, net of income tax recovery of $6,964 (2000 - $7,064)	**(9,461)**	(9,361)
	(9,461)	(9,361)
INVESTING ACTIVITIES:		
Mortgage purchases	**(313,594)**	(189,805)
Mortgage sales	**234,965**	126,889
Mortgage principal repayments received	**71,855**	45,012
	(6,774)	(17,904)
Decrease in cash	**(4,913)**	(16,250)
Cash, beginning of year	**8,622**	24,872
Cash, end of year	**$ 3,709**	$ 8,622
Cash disbursements made for:		
Income taxes	**$ 718**	$ 717

See accompanying notes to financial statements.

1. INCORPORATION AND ORGANIZATION:

Scotia Mortgage Investment Corporation (the "Company"), a wholly-owned subsidiary of The Bank of Nova Scotia (the "Bank" or "Scotiabank"), was formed under the Trust and Loan Companies Act (Canada) (the "Act") on October 17, 1997 upon the amalgamation of Scotia Mortgage Investment Inc. ("SMII") and Scotia Mortgage Investment Corporation, a loan company incorporated by Letters of Patent under the Act on October 16, 1997. The Company makes investments and operates its business at all times in such a manner as to qualify as a mortgage investment corporation (a "MIC") under the provisions of the *Income Tax Act (Canada)*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Company have been prepared in accordance with the Trust and Loan Companies Act (Canada), which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (the "Superintendent"), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of the Superintendent, are summarized on the following pages. These accounting polices conform, in all material respects, to GAAP.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from those estimates.

(a) Mortgage loans:

Mortgage loans are stated net of any unearned income. Interest income is accounted for on the accrual basis for all loans other than impaired loans. Accrued interest is included in other assets in the balance sheet.

Interest bonuses received on prepayment of mortgage loans are deferred and amortized over the average remaining terms to maturity.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such, unless the loan is fully secured, the collection of the debt is in process and the collection efforts are reasonably expected to result in the repayment of the loan or in restoring it to a current status within 180 days from the date a payment has become contractually in arrears. Finally, a loan that is contractually 180 days in arrears, is classified as impaired in all situations except when it is guaranteed or insured by the Canadian government, the provinces or a Canadian government agency; such loans are classified as impaired if the loan is contractually in arrears for 365 days.

When a loan is classified as impaired, it is repurchased by Scotiabank at prevailing market rates, including accrued interest.

(b) Income taxes:

The Company follows the assets and liability method of accounting for corporate income taxes. Under this method, future tax assets and liabilities represent the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities, and their values for tax purposes. Future tax assets and liabilities are measured using enacted or substantively enacted tax

rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in future income taxes related to a change in tax rates are recognized in income in the period of the tax rate change.

Future tax assets are included in other assets.

(c) Derivative instruments:

Interest rate swaps and swaptions are used to manage the Company's interest rate exposure.

Income and expense on these instruments are recognized over the life of the related position as an adjustment to interest income. Realized gains and losses on terminated contracts are deferred and amortized over the remaining original life of the related contract. If these hedging instruments are no longer effective, the instrument is reclassified as a trading instrument and subsequently marked to market.

Accrued income and expenses, deferred gains and losses, and option premiums are included in other assets and accounts payable and accrued liabilities, as appropriate.

3. MORTGAGE LOANS:

The Company's mortgage loans consist of NHA insured residential mortgages. NHA mortgages are insured against loss by the Canada Mortgage and Housing Corporation.

4. OTHER ASSETS:

As at October 31 *(In thousands of dollars)*	**2001**	2000
Accrued interest	**$ 972**	$ 941
Future income taxes	**744**	1,031
Other	**783**	288
	$ 2,499	$ 2,260

5. DUE TO THE BANK OF NOVA SCOTIA:

On October 31, 1997, the Company entered into interest rate swap and swaption agreements with its parent in return for a premium payable of approximately $2,075,000. The premium payable is non-interest bearing and is to be paid in years 2002 to 2007.

6. CAPITAL STOCK:

(a) Authorized:

The Company's authorized share capital consists of 600,000 Preferred Shares Class A ("Scotia BOOMS") and an unlimited number of Common Shares.

(b) Scotia BOOMS:

On October 31, 1997, 250,000 Scotia BOOMS were issued at a price of $1,000 per Scotia BOOMS.

Except as expressly provided by law, the holders of the Scotia BOOMS are not entitled to vote.

Each Preferred Share Class A is entitled to non-cumulative preferential cash dividends ("Indicated Yields"), if and when declared, payable semi-annually on the last day of April and October in an amount per share of $32.85.

On or after October 31, 2007 but subject to the provisions of the Act and to the prior approval of the Superintendent, the Scotia BOOMS will be redeemable at the option of the Company, in whole (but not in part) upon payment in cash of an amount equal to the sum of $1,000 per Scotia BOOMS so redeemed plus the declared and unpaid Indicated Yield thereon to the date fixed for redemption, if any. Alternatively, at

the option of the Bank, the Scotia BOOMS may be exchanged for common shares of the Bank.

On or after October 31, 2007, Scotia BOOMS can be exchanged into common shares of the Bank at the option of the holder subject to the right of the Bank prior to the exchange date to purchase for cash or find substitute purchasers for such shares.

Upon the occurrence of a defined tax event prior to October 31, 2007, the Bank will have the right to exchange all, but not less than all, of the outstanding Scotia BOOMS into common shares of the Bank. Subject to the prior approval of the Superintendent, and the Bank's prior right of exchange, the Company will have the right upon the occurrence of such defined tax event on or after October 31, 2002 and prior to October 31, 2007 to redeem for cash all, but not less than all, of the Scotia BOOMS.

The Scotia BOOMS will be automatically exchanged, without the consent of the holder, for a newly-issued series of preferred shares of the Bank in certain defined circumstances.

The Scotia BOOMS rank equally with all other preferred shares of the Company and in priority to the common shares of the Company with respect to dividend rights and rights upon liquidation, dissolution or winding-up of the Company.

(c) Common Shares:

On October 17, 1997, 10,000 common shares were issued at a price of $1,000 per share, and on October 31, 1997, a further 52,500 common shares were issued at a price of $1,000 per share.

The holders of the common shares of the Company are entitled to vote at all meetings of the shareholders of the Company.

All of the outstanding common shares of the Company are owned by the Bank. For as long as any Scotia BOOMS are outstanding, the Bank intends to maintain direct ownership of 100% of the outstanding common shares of the Company.

When as a consequence of an exchange right or provision or otherwise, there is or, after giving effect to such transaction, will be a reduction in the number of Scotia BOOMS outstanding, the Company may, subject to the prior approval of the Superintendent, redeem, purchase, or otherwise retire for an amount equal to their fair market value that number of common shares of the Company necessary in order to preserve or maintain its status as a MIC under the *Income Tax Act (Canada).*

Holders of common shares of the Company are entitled, after the payment of the Indicated Yield to holders of the Scotia BOOMS and only to the extent that there are reasonable grounds for believing that the Company is not, or after such distribution would not be, in contravention of any regulation or direction made under the Act relating to capital or liquidity, to payment of dividends, if, as and when declared by the board of directors of the Company, on such common shares up to but not in excess of a like amount to the Indicated Yield on the Scotia BOOMS, and thereafter are entitled to participate pari passu with the holders of the Scotia BOOMS in any further payment of dividends.

7. TRANSACTIONS WITH THE BANK AND ITS SUBSIDIARIES:

Scotiabank provides, in the normal course of business, banking services and other administrative services to the Company. As at October 31, 2001, the company had cash deposits with Scotiabank in the amount of $3,709,000 (2000 - $8,622,000). During the course of the year, the Company earned interest of $422,000 (2000 - $395,000) on these deposits. Included in general and administrative expenses is $250,000 (2000 - $250,000) for advisory services provided by Scotiabank in accordance with an Advisory Agreement. Also included in general and administrative expenses is a standby fee of $75,000 (2000 - $75,000) for a $60 million credit facility arranged with Scotiabank. The credit facility is

renewable annually and is unsecured bearing interest at Scotiabank's Prime Lending Rate or Bankers Acceptance rate plus 0.25%.

An agreement between the Company and the Scotiabank group of companies allows the Company to purchase and sell mortgage loans at specified terms and conditions within the Scotiabank group of companies. Mortgage loans are acquired by the Company on a fully-serviced basis from the Bank and its subsidiary, Scotia Mortgage Corporation ("SMC"). Accordingly, the Bank and SMC receive compensation equal to 0.25% per annum on the principal balances of the mortgage assets at the time of purchase thereof. This compensation is amortized over the life of the mortgage as a reduction in the interest income.

During the year the Company purchased, at fair market value within specified terms for cash, mortgage loans amounting to approximately $314 million (2000 - $190 million) from Scotiabank. In addition, the Company sold to Scotiabank at fair market value within specified terms for cash, a portfolio amounting to approximately $235 million (2000 - $127 million).

8. FINANCIAL INSTRUMENTS:

(a) Fair value:

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Instruments which lack an available trading market have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realizable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Changes in interest rates are the main cause of changes in the fair value of the Company's financial instruments. The Company's financial instruments are carried at historical cost and are not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes.

The following table sets out the fair value of on-balance sheet financial instruments of the Company using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as income taxes.

As at October 31	**2001**			2000		
($ thousands)	**Fair Value**	**Book Value**	**Favourable/ (Unfavourable)**	Fair Value	Book Value	Favourable/ (Unfavourable)
ASSETS:						
Cash	**$ 3,709**	**$ 3,709**	**$ –**	$ 8,622	$ 8,622	$ –
Mortgage loans	**311,676**	**307,101**	**4,575**	298,313	300,327	(2,014)
Other assets	**1,755**	**1,755**	**–**	1,229	1,229	–
LIABILITIES:						
Accounts payable and accrued liabilities	**$ 20**	**$ 20**	**$ –**	$ 22	$ 22	$ –

Determination of fair value:

The following methods and assumptions were used to estimate the fair values of on-balance sheet financial instruments:

The fair values of cash, other assets and accounts payable and accrued liabilities are assumed to approximate their carrying values, due to their short-term nature.

The estimated fair value of mortgage loans reflects changes in the general level of interest rates that have occurred since the mortgage loans were originated. The particular valuation methods used are as follows:

(i) For floating rate mortgage loans, fair value is assumed to be equal to book value as the interest rates on these mortgage loans automatically reprice to market.

(ii) For all other mortgage loans, fair value is determined by discounting the expected future cash flows of these mortgage loans at market rates for mortgage loans with similar terms and risks.

(b) Interest rate risk:

The following table summarizes carrying amounts of on-balance and off-balance sheet financial instruments based on the earlier of contractual repricing or maturity dates.

As at October 31, 2001

($ thousands)	Immediately Rate Sensitive[1]	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Rate Sensitive	Total
Cash	$ –	$ –	$ –	$ –	$ –	$ **3,709**[2]	$ **3,709**
Mortgage loans	–	**67,000**[3]	**236,000**[3]	**4,101**[3]	–	–	**307,101**
Other assets	–	–	–	–	–	**2,499**[4]	**2,499**
Total assets	–	**67,000**	**236,000**	**4,101**	–	**6,208**	**313,309**
Due to The Bank of Nova Scotia	–	–	–	**1,660**	**415**	–	**2,075**
Other liabilities	–	–	–	–	–	**1,033**	**1,033**
Shareholders' equity	–	–	–	–	–	**310,201**[4]	**310,201**
Total liabilities and shareholders' equity	–	–	–	**1,660**	**415**	**311,234**	**313,309**
On-balance sheet gap	–	**67,000**	**236,000**	**2,441**	**(415)**	**(305,026)**	–
Off-balance sheet gap	–	**(103,000)**	**(147,000)**	–	**250,000** –	–	
Total interest rate sensitivity gap	–	**(36,000)**	**89,000**	**2,441**	**249,585**	**(305,026)**	–
Cumulative gap	–	**(36,000)**	**53,000**	**55,441**	**305,026**	–	–

As at October 31, 2000

Total interest rate sensitivity gap	–	(23,378)	53,000	28,082	249,170	(306,874)	–
Cumulative gap	$ –	$ (23,378)	$ 29,622	$ 57,704	$306,874	$ –	$ –

(1) Represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example, prime rate loans.

(2) The weighted average effective yield on the cash is 4.16% (2000 - 5.25%).

(3) The weighted average effective yield on the mortgage loan categories above are 6.86% (2000 - 7.39%), 6.52% (2000 - 7.31%), and 6.39% (2000 - 6.41%) respectively; yields are based on book values and contractual interest rates adjusted for the amortization of deferred income. The yields after adjusting for related derivative instruments are 8.04% (2000 - 7.30%), 6.52% (2000 - 7.31%), and 6.39% (2000 - 6.41%) respectively.

(4) This includes non-financial instruments.

9. DERIVATIVE INSTRUMENTS:

(a) Notional amounts:

The aggregate notional amount of the off-balance sheet interest rate swap derivative instruments

outstanding and used to mitigate the Company's interest rate risk is $470 million (2000 - $470 million). The derivative instruments are comprised of interest rate swaps, interest rate swaptions and a delayed start swap. The notional amounts of these contracts represent the derivatives volume outstanding and do not represent the potential gain or loss associated with the market value or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged. The terms and conditions of each of these instruments is further described below.

The aggregate notional amount of the interest rate swaps outstanding and used to mitigate the Company's interest rate risk on reinvestment is $103 million (2000 - $82 million). These interest rate swaps have a maturity date of June 30, 2002. Under the terms of these interest rate swaps, the Company pays a 3 month BA floating rate of interest and receives various fixed rates of interest between 5.5% and 6.1% on either a quarterly or semi-annual basis.

At October 31, 2001, the unexercised portion of the interest rate swaption is approximately $117 million (2000 - $138 million) maturing March 28, 2002. The interest rate swaption has a series of exercise dates on which the Company can cumulatively exercise a portion of the total notional amount. To the extent that the Company exercises the swaption, the related notional amount is converted to an interest rate swap whereby the Company pays a floating rate of interest and receives a fixed rate of interest on a quarterly basis until the maturity date of June 30, 2002. This interest rate swaption was entered into to mitigate the reinvestment risk for the initial five year period associated with anticipated customer prepayments in the Company's existing mortgage loan portfolio.

In anticipation of hedging the reinvestment risk associated with the principal repayment of the Company's mortgage loan portfolio after the initial five years, the Company entered into an interest rate swap with an effective start date of June 30, 2002, and a maturity date of October 31, 2007. As at October 31, 2001 the notional amount of this interest rate swap is $250 million (2000 - $250 million). Under the terms of this delayed start swap, the Company will pay a floating rate of interest and receive a fixed rate of interest on a semi-annual basis.

All of the above transactions have been undertaken with Scotiabank.

(b) Remaining term to maturity:

The following table summarizes the remaining term to maturity of notional amounts of the Company's derivative instruments:

As at October 31, 2001 ($ thousands)	Within 1 Year	One to 5 Years	Over 5 Years	Total
Interest rate swaps	**$ 103,000**	**$ –**	**$ –**	**$ 103,000**
Interest rate swaption	**117,347**	**–**	**–**	**117,347**
Delayed start interst rate swap	**–**	**–**	**250,000**	**250,000**

As at October 31, 2000	Within 1 Year	One to 5 Years	Over 5 Years	Total
Interest rate swaps	$ –	$ 82,000	$ –	$ 82,000
Interest rate swaption	–	138,347	–	138,347
Delayed start interst rate swap	–	–	250,000	250,000

(c) Credit risk:

As with on-balance sheet assets, derivative instruments are subject to credit risk. Credit risk arises from the possibility that counterparties may default on their obligations to the Company. However, whereas

the credit risk of on-balance sheet assets is represented by the principal amount net of any applicable allowance for credit losses, the credit risk associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. Derivative contracts expose the Company to credit loss only if changes in market rates affect a counterparty's position unfavourably and the counterparty defaults on payment. Accordingly, credit risk of derivatives is represented by the positive fair value of the instrument.

The following table summarizes the credit exposure of the Company's derivatives. The credit risk amount ("CRA") represents the estimated replacement cost, or positive fair value, for all contracts. The CRA does not reflect actual or expected losses.

As at October 31	**2001**					2000		
($ thousands)	**Notional amount**	**Credit risk amount (CRA)**	**Potential future exposure**	**Credit equivalent amount (CEA)**	**Risk weighted balance**	Notional amount	Credit risk amount (CRA)	Risk weighted balance
Over-the-counter:								
Interest rate swaps	**$ 103,000**	**$ 2,399**	**$ 515**	**$ 2,914**	**$ 583**	$ 82,000	$ –	$ 82
Interest rate swaption	**117,347**	**1,384**	**587**	**1,971**	**394**	138,347	56	149
Delayed start interest rate swap	**250,000**	**15,774**	**3,750**	**19,524**	**3,905**	250,000	–	750
Total	**$ 470,347**	**$ 19,557**	**$ 4,852**	**$ 24,409**	**$ 4,882**	$470,347	$ 56	$ 981

The credit equivalent amount ("CEA") is the CRA plus an add-on for potential future exposure. The add-on amount is based on a formula prescribed in the Capital Adequacy Guideline of the Superintendent. The risk weighted balance is the CEA multiplied by counterparty risk factors prescribed by this Guideline.

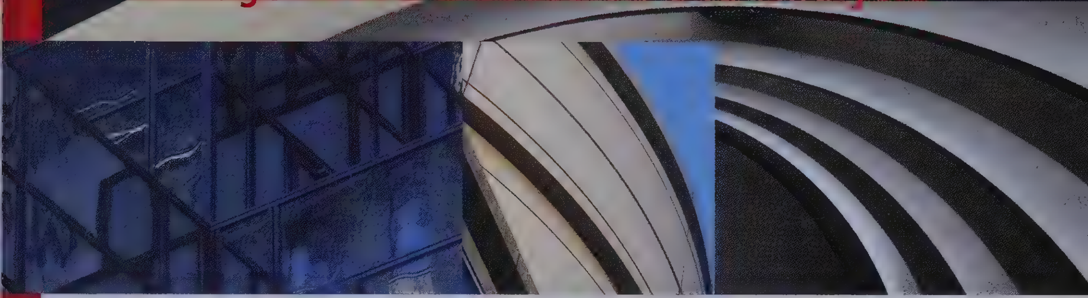
The total CRA amounts outstanding were with the Bank as counterparty.

(d) Fair value:

Fair values of over-the-counter derivatives are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

The following table summarizes the fair value of derivatives used in the Company's asset/liability risk management process ("ALM").

As at October 31	**2001**		2000	
($ thousands)	**Favourable**	**Unfavourable**	Favourable	Unfavourable
ALM				
INTEREST RATE CONTRACTS:				
Interest rate swaps	**$ 2,399**	**$ –**	$ –	$ 179
Interest rate swaption	**1,384**	**–**	56	–
Delayed start interest rate swap	**15,774**	**–**	–	1,709
Total	**$ 19,557**	**$ –**	$ 56	$ 1,888



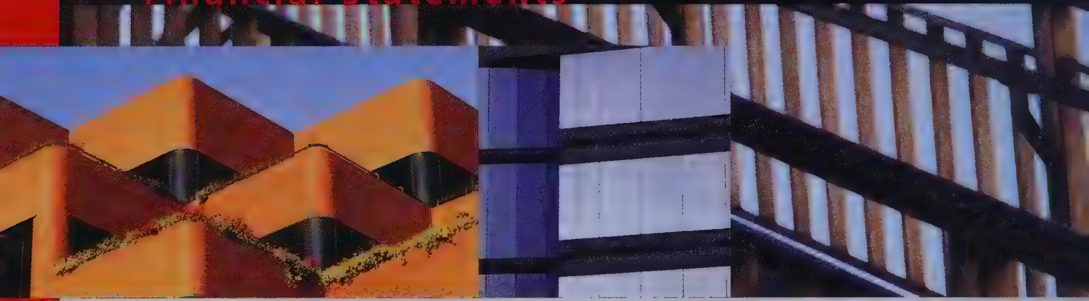
Management's Discussion and Analysis for the interim period ending January 31, 2002.

Results of Operations

For the first quarter of fiscal 2002, the Company's net income before the payments of Scotia BOOMS dividends was $3,185,000, an improvement of $633,000 over the same period last year. The improvement was due to higher interest profit (including related net swap interest) and a decrease in the amortization of swaption premiums. Operating expenses were essentially flat year over year. After smoothing the Scotia BOOMS dividends evenly, the Company's year-to-date net income after dividends was $746,000 compared to $212,000 during the same period last year.

Total assets of the Company were $319 million at the end of the first quarter, compared to $317 million a year ago and $313 million as at October 31, 2001. The increase over last quarter reflects the semi-annual payment of the Scotia BOOMS dividends on October 31, 2001. Other than the fluctuations arising from the accumulation of earnings and semi-annual nature of the Scotia BOOMS dividend payments, the asset base has remained constant throughout the past year.

The Company declared semi-annual dividends of $32.85 per Scotia BOOMS payable on April 30, 2002. No dividends were paid, nor declared payable, to the Company's common shareholder.



Financial Statements of Scotia Mortgage Investment Corporation

For the Interim Period ending January 31, 2002

Interim Balance Sheet

(Unaudited)

($ thousands)	As at January 31 2002	October 31 2001	January 31 2001
ASSETS			
Cash	$ 9,344	$ 3,709	$ 22,215
Mortgage loans	305,252	307,101	291,521
Other assets	4,206	2,499	3,545
	$ 318,802	$ 313,309	$ 317,281
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accounts payable and accrued liabilities	$ 7	$ 20	$ 10
Dividends payable on preferred shares	8,212	–	8,212
Taxes payable	–	1,013	–
Due to The Bank of Nova Scotia	2,075	2,075	2,075
	10,294	3,108	10,297
SHAREHOLDERS' EQUITY:			
Capital stock:			
Preferred shares Class A	250,000	250,000	250,000
Common shares	62,500	62,500	62,500
	312,500	312,500	312,500
Deficit	(3,992)	(2,299)	(5,516)
	308,508	310,201	306,984
	$ 318,802	$ 313,309	$ 317,281

These interim financial statements should be read in conjunction with the financial statements for the year ended October 31, 2001 as set out in the 2001 Annual Report. The accounting policies used in the preparation of these financial statements are consistent with the accounting policies used in the Company's year end audited financial statements of October 31, 2001.

Interim Statement of Income and Deficit

(Unaudited)

($ thousands)	For the three months ended January 31 2002	October 31 2001	January 31 2001
INCOME			
Interest on mortgage loans	$ 5,719	$ 5,141	$ 4,778
Other interest	57	101	112
	5,776	5,242	4,890
General and administrative expenses	111	138	113
Income before income taxes	5,665	5,104	4,777
Income taxes – current	2,480	2,403	2,225
Net income	3,185	2,701	2,552
Deficit, beginning of period	(2,299)	(4,899)	(3,388)
Preferred dividends net of income tax recovery(1)	(4,878)	(101)	(4,680)
Deficit, end of period	$ (3,992)	$ (2,299)	$ (5,516)

These interim financial statements should be read in conjunction with the financial statements for the year ended October 31, 2001 as set out in the 2001 Annual Report. The accounting policies used in the preparation of these financial statements are consistent with the accounting policies used in the Company's year end audited financial statements of October 31, 2001.

(1) Income tax recovery for the three months ended January 31, 2002 - $3,334, October 31, 2001 - $ nil, January 31, 2001 - $3,532.

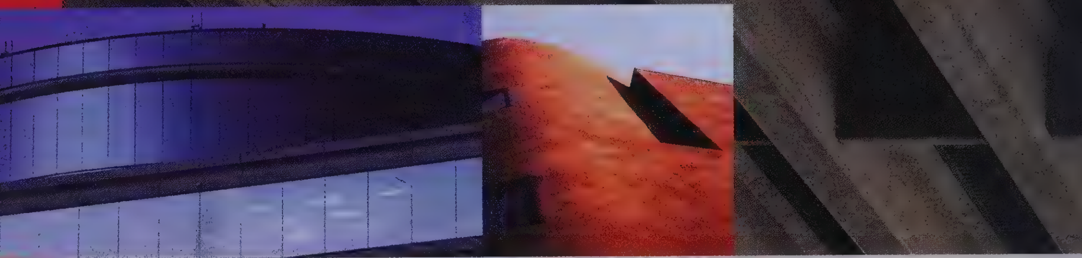
Interim Statement of Cash Flows

(Unaudited)

($ thousands)	For the three months ended January 31 2002	January 31 2001
Cash provided by (used in):		
OPERATING ACTIVITIES:		
Net income for the period	$ 3,185	$ 2,552
Amortization of swaption premium	29	84
Net change in non-cash working capital components	5,450	6,831
	8,664	9,467
FINANCING ACTIVITIES:		
Preferred dividends paid, net of income tax recovery of $3,334 (2000 - $3,532)	(4,878)	(4,680)
	(4,878)	(4,680)
INVESTING ACTIVITIES:		
Mortgage purchases	(140,813)	(65,516)
Mortgage sales	121,140	64,137
Mortgage principal payments received	21,522	10,185
	1,849	8,806
Increase in cash during the period	5,635	13,593
Cash, beginning of period	3,709	8,622
Cash, end of period	$ 9,344	$ 22,215
Cash disbursements made for:		
Income taxes	$ 553	$ 179

These interim financial statements should be read in conjunction with the financial statements for the year ended October 31, 2001 as set out in the 2001 Annual Report. The accounting policies used in the preparation of these financial statements are consistent with the accounting policies used in the Company's year end audited financial statements of October 31, 2001.

Board of Directors and Officers



Board of Directors

ROBERT W. CHISHOLM

Mr. Chisholm is Chairman of the Board and Chief Executive Officer of Scotia Mortgage Investment Corporation, and is a Vice-Chairman of The Bank of Nova Scotia. He has been a director of Scotia Mortgage Investment Corporation since October 17, 1997, and currently sits on the Investment Committee. He lives in Toronto, Ontario.

GEORGE A. BRADBURY

Mr. Bradbury is President of Scotia Mortgage Investment Corporation, and is former Vice-President of The Bank of Nova Scotia. He has been a director of Scotia Mortgage Investment Corporation since October 17, 1997, and currently sits on the Investment Committee. He lives in St. John's, Newfoundland.

THOMAS A. HALLETT

Mr. Hallett is former Vice-President of Beothic Fish Processors Ltd. He has been a director of Scotia Mortgage Investment Corporation since October 17, 1997, and currently sits on the Conduct Review Committee. He lives in St. John's, Newfoundland.

JEROME M. KIRKLAND

Mr. Kirkland is a Property Appraiser and Consultant with Kirkland Balsom & Associates. He has been a director of Scotia Mortgage Investment Corporation since October 17, 1997, and currently sits on the Conduct Review Committee. He lives in St. John's, Newfoundland.

RAYMOND G. NOSEWORTHY

Mr. Noseworthy is a retired Chartered Accountant and Trustee in Bankruptcy. He has been a director of Scotia Mortgage Investment Corporation since October 17, 1997, and currently sits on the Audit and Investment Committees. He lives in St. John's, Newfoundland.

EDWARD M. ROBERTS

Mr. Roberts is a Barrister with Patterson Palmer Hunt Murphy. He has been a director of Scotia Mortgage Investment Corporation since October 17, 1997, and currently sits on the Audit and Conduct Review Committees. He lives in St. Phillips, Newfoundland.

AIDAN F. RYAN

Mr. Ryan is former Chief Executive Officer of Newfoundland Power. He has been a director of Scotia Mortgage Investment Corporation since October 17, 1997, and currently sits on the Audit Committee. He lives in St. John's, Newfoundland.

Officers

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
Robert W. Chisholm

PRESIDENT
George A. Bradbury

SECRETARY, TREASURER AND CHIEF FINANCIAL OFFICER
John S. Young

CHIEF AUDIT OFFICER
Luke A. Vanneste

ASSISTANT SECRETARY
Francis S. Power

For Further Information

John S. Young

Secretary, Treasurer and Chief Financial Officer

245 Water Street,

St. John's Newfoundland,

Canada A1C 1B5

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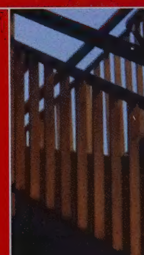
E-mail: jsyoung@nf.sympatico.ca



Scotia Mortgage
Investment Corporation